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THE DEVELOPMENT OF BANKING IN OREGON

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PREFACE.

In 1907 the author of the present monograph published a work entitled *Trade and Currency in Early Oregon.* The period covered by this earlier work ended with the close of the Civil War and the solution of the legal tender problem reached by the Pacific Coast states. Furthermore, the discussion was concerned almost wholly with the commercial and monetary history of the State and little or no attention was paid to the development of banking. It was the intention at that time to supplement the monetary history with an account of the later development of credit institutions. At the suggestion and through the aid of the Carnegie Bureau of Economic Research the task was undertaken and finished during the year 1908, but for various reasons publication has been delayed until now. In the following pages an attempt has been made to notice only general phases and tendencies and to estimate the services rendered by the banks at different stages of economic progress.

The author is indebted to the Carnegie Bureau for financial assistance in collecting data for the present publication. He also wishes to acknowledge his obligations to George H. Himes, assistant secretary and curator of the Oregon Historical Society, to Professor Morse Stevens of California, and to many bankers and business men of the State who have helped materially in supplying sources of information or furnishing important details.

J. H. G.

Eugene, Oregon, August, 1911.

THE DEVELOPMENT OF BANKING IN OREGON.

Banking institutions are as a rule established only after a community has reached a certain stage of commercial and industrial development; but in turn the rapidity with which the resources of a new country are utilized and its trade developed depends very largely on the supply of available capital and the use that is made of its circulating medium. The history of banking, then, is only a phase of economic history but one of the most difficult to treat in a satisfactory manner because of the intricate relationship between institutions of credit and other forms of business and the difficulty of estimating aright the importance of the banking function. Oregon is one of the newer communities of the far west and has without question natural advantages which fit it for a high stage of industrial development but its progress has been slow along many lines because until recently the State has been so largely dependent on its own capital resources. Much of its banking capital was slowly accumulated through the ordinary processes of trade. Of course branches of foreign banks were established in Oregon at an early date but the capital of parent institutions was hardly available for State investments at all. As a rule local branches made use of resources collected on the spot, merely helping the community to utilize its own capital to the best advantage. On account of distance from the financial centers of the east and the lack of easy communication it was not until the early eighties that outside investments of capital became at all important. Even when eastern investors began to look toward the Pacific Coast Oregon and Washington attracted little attention on account of the rapid, even spectacular, development of California to the south. It was not until a comparatively recent date that a complex system of banks was developed in Oregon and there has been a continual shortage of banking capital as compared with the older communities of the east.

Another peculiarity of banking history in Oregon is the absence of any experience with State banks of issue. The constitution of 1857 withheld the right to charter a State bank, forbade the founding of any bank of issue within the State or the creation of any credit device to circulate as money.*

The history of banking in Oregon, therefore, has nothing to do with the function of issue but must confine itself almost exclusively to an

*_Oregon Constitution_, Article XI, Section 1.

account of deposit and lending as a means of utilizing the community's capital with some attention, of course, to checks, drafts and clearing-house facilities as agencies for economizing the circulating medium.

Viewed from this standpoint then the history of banking in Oregon may be conveniently treated in five consecutive periods. The first of these, which extends from 1859 to 1873, may be characterized as the era of the early commercial banks. During this period but few banks were organized and these were closely connected with the mercantile business. Commercial loans occupied the attention of the banker almost exclusively and even this demand was poorly supplied. The second period 1873-1880 may be denominated the era of mortgage-investment companies and of savings banks. During these years foreign capital sought investment in real estate loans and the moderate savings of the industrious and thrifty classes were collected and loaned to an advantage. The years 1880-1890 we have termed the period of industrial awakening and of national banking organization. This decade witnessed the closer union of all sections of the Pacific Northwest through the extension and improvement of railway systems, increased trade and the rapid development of banking in the smaller communities of the State. Portland became at the same time the wholesale and financial center of the northwest, and toward the end of the period the first and only clearing house association in the State was organized in the metropolis. The events of the next ten years (1890-1900) center about the panic of 1893 which resulted in the failure and dissolution of a number of banking institutions and seriously impaired the working capital of others. The years 1900-1908 might be characterized as a period of integration. During this time the banks regained more than was lost in the previous decade, the financial institutions in all the large cities came to recognize their mutual dependence on each other, and finally State and private as well as national banks were placed under strict administrative supervision.

I.

As agencies for receiving deposits of gold dust, money and other valuables for safe-keeping and for issuing drafts on San Francisco and New York, the merchants and express companies were the first bankers and began operations early in the fifties. The mercantile firm of Couch & Company, Portland, advertised themselves as "bankers, wholesale and retail merchants,"* and sold exchanges on New York and San Francisco.

Norris & Company, while announcing their business as grocers and commission merchants in February, 1851, added that they had responsible connections with both California and the east and were enabled to draw drafts on all principal cities in the Union, also to forward gold dust to eastern cities on most favorable terms.†

The express companies, whose regular business at this time consisted so largely in receiving and forwarding gold dust and other valuables,

*_Oregonian,_ December 4, 1850.
†George H. Himes in _Portland Journal,_ December 20, 1907.

naturally developed into agencies for deposit and safe-keeping. The vaults of the express companies became, to a certain extent, the community's strong boxes. Adams & Company began an express business in Portland as early as 1851 through an agency known as Todd & Company, which was authorized to draw bills of exchange on all houses on the Atlantic and on London at the "usual" rates. In April, 1852, Adams & Company established a regular branch office in Portland and were represented by Newell & Company.*

In October, 1852, Wells, Fargo & Company announced themselves as "bankers and exchange dealers" and established an office in Portland with W. H. Barnhart & Company as agents.†

Probably all these express companies, and certainly Adams & Company, not only furnished facilities for remitting money but also received money on deposit. This latter firm advertised that deposits would be received "on special or general account," and it is a matter of record that upon the failure of the company's house in San Francisco a certain stockman of Southern Oregon had a deposit of $15,000 with the Portland branch. The San Francisco office of Adams & Company certainly did a regular banking business, for, at the time of its failure, it was said to have had on hand "thousands of dollars in bills taken from merchants for indispensable accommodations."‡

Just how far the Portland house followed the practice of lending is a matter of doubt.

The services of the express companies and merchants as depositories for money and valuables were probably unimportant and incidental to their main functions of transporting and exchanging goods and certainly the business of discount and lending was of such minor importance as scarcely to deserve attention.

The history of banking in Oregon really dates from April, 1859, when W. S. Ladd and C. E. Tilton established a bank in Portland under the firm name of Ladd & Tilton. The original capital was $50,000 but it was shortly increased to $250,000.‖

Small as this enterprise was at the beginning, it represented the sole banking institution of the State for a period of seven years, and, during that time, met all the demand for banking facilities.¶

About 1866, a group of business men including A. A. Ankeny, Phil. Wasserman, J. B. Harker, Asa Harker, A. M. Starr and L. M. Starr founded the first national bank in Portland. The business of the bank was small and its future doubtful until about 1869 when Henry Failing and H. W. Corbett obtained a majority of the stock and increased the capital from $100,000 to $250,000.£

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*Oregonian, December 6, 1851; *Ibid*, March 6, 1852; *Ibid*, April 3, 1852.

†*Oregonian*, October 16, 1852; *Ibid*, January 15, 1853.

‡G. H. Himes in *Portland Journal*, December 20, 1907; *Argument of the Counsel for Alvin Adams in the Trial of A. A. Cohen for Embezzlement*, p. 55.

‖H. W. Scott, *History of Portland*, p. 403.

¶*Oregonian*, January 1, 1901.

£*Portland Journal, Anniversary Edition*, September 8, 1907; *Oregonian Handbook*, 1894, pp. 138-139.

During the same year the Bank of British Columbia established a branch in Portland, and the working capital of these three institutions was estimated at $1,500,000, which was probably adequate for all mercantile business then carried on, since the entire export trade of Oregon at this time did not exceed $1,250,000.*

There was still no organization or building society to assist owners in making improvements on farms or other real estate and very little outside capital was offered for loan by private individuals. As late as 1872 the combined capital of the three Portland banks was $750,000 and deposits amounted to but $2,195,000. Outside of Portland there were only two other banks in the State, Ladd & Bush (established at Salem in 1868), and John Conner's Bank at Albany. Both of these were small private institutions and their business consisted largely in receiving deposits and selling exchanges.†

There were no savings banks in the State, but Ladd & Tilton, the First National Bank and the Bank of British Columbia allowed interest at 6 per cent on time deposits. These rates on savings accounts were from one to two per cent higher than current rates on the Atlantic and were very nearly the same as those paid by the California banks.‡

It was probably true that the lack of savings banks was not considered a hardship by the thrifty classes, for they regularly invested their savings in city or suburban real estate with the prospect of large gains in the near future.

It will be seen at a glance that the resources of Oregon banks in 1873 were very meager but there was no considerable demand for banking facilities. Agriculture did not yet produce a large surplus and trade was still undeveloped. The population of the State was less than 100,000 and Portland, the commercial and banking center, had about 8,000 people. Prior to 1868 the shipments of gold dust, bars and treasure of various kinds, which were handled chiefly by the express companies, formed in value about three-fourths of all the exports of Oregon. After 1868, however, consignments of gold dust gradually fell off until 1872, when they became an inconsiderable item in trade. In 1873 the gross exports of merchandise from the Columbia River amounted to only $3,124,606, excluding treasure; and in 1872 the *foreign* exports amounted to only $778,376.‖

During this earlier period the meager capital for banking purposes was drawn largely from the profits of mercantile business, and practically none was borrowed from the east or from Europe. Portland became at an early date the commercial center of Oregon because of its advantageous position as a trading point for the Willamette and Columbia River valleys. Where the profits of trade were the only source of banking capital it was natural that Portland should become the financial center as well. Early merchants like W. S. Ladd, C. E. Tilton, H. W.

*H. W. Scott, *History of Portland*, p. 403; Wm. Reid, *Progress of Oregon and Portland*, 1868-1878, p. 7.
†Hugh Small, *Oregon and Her Resources*, p. 117.
‡*Ibid*, p. 118.
‖Wm. Reid, *Progress of Portland and Oregon 1868-1878*, p. 7.

Corbett, Failing & Sons, Breck and Ogden did a large retail business. They had begun with their own capital and kept the profits reinvested in the business. During the days of gold in California (1850-1860) and the period of active mining operations in Eastern Oregon (1860-1870) the profits on merchandise were considerable, and supplied the capital for both wholesale and banking businesses.*

Where the merchant became the money lender there was undoubtedly a fairly close correspondence between the interest rate and the average profits of trade. How large were the gains of business is shown by the fact that, when the first bank was established in 1859, the customary rates on short time commercial loans were from 3 to 5 per cent a month, though it is said that Ladd & Tilton took the best loans at 2½ per cent.†

Equally high rates were charged for mortgage loans. A statement of the case of *Besser vs. Hawthorne*, for example, shows that, on June 20, 1859, Cincinnatus Schultz and his wife executed to Besser a mortgage to secure the payment of a note for $500, with interest at 3 per cent a month for a term of two years.‡

A lack of capital coupled with unusual opportunities for its employment were responsible for these abnormal rates of interest. The events which preceded the outbreak of the Civil War restricted still further the supply of loanable funds. The *Oregonian* of March 7, 1861, noticed that there was an unusual scarcity of money, and remarked that loans and discounts were scarcely procurable at any rates. Reasons assigned for the stringency in the money market were the delayed payment of claims against the federal government and the belief that agents and officials of the United States had contracted liabilities for which the government was not responsible, while the continued political agitation in the east lessened confidence among business men and made investors slow to hazard their funds.

High rates of interest were made illegal by the first usury law of October 16, 1862—"An act to regulate the rate of interest on money and to prevent and punish usury." A territorial law of January 26, 1854, had fixed the legal rate of interest at 10 per cent on debts and judgments where no rate had been agreed on or stipulated. This act, however, left borrower and lender perfectly free to contract for whatever rates they chose, and even provided that judgments on contracts calling for interest in excess of 10 per cent should bear interest at the same rate. The law merely prohibited compounding interest on long-time contracts oftener than once a year.‖

The act of 1862 not only fixed the legal rate of interest at 10 per cent but also prescribed a maximum of 12 per cent which could be charged by special agreement. This law provided further that, where suit was brought for the collection of a debt bearing interest at more

Oregonian, Souven'r Edition, 1890, p. 69.
†H. H. Bancroft, *W. S. Ladd, A Character Sketch*, p. 14.
‡*Oregon Reports*, Vol. 3, p. 130.
‖*Statutes of Oregon 1853-54*, p. 532.

than 12 per cent, the judge was empowered to declare the amount of the principal forfeited to the school fund of the county in which the suit was instituted.*

By this provision, therefore, the creditor lost completely while the debtor was not relieved from the obligation of paying the principal because the rate of interest was usurious. That this provision of the law was strictly enforced by the courts in suits coming under their cognizance is shown by the case of Chapman *vs.* the State of Oregon. Action had been brought for the collection of a promissory note of $350, secured by a chattel mortgage and covering debts on which usurious rates of interest had been charged. A bonus of $50 had been given for the loan. The court ruled that the debt should be forfeited to the school fund, and that the State was also the owner of the mortgage to insure its collection.†

Strict as the law was and rigidly as the courts applied it, it is still doubtful whether the act operated at once to reduce rates to the borrower. Rates that were in reality usurious often resolved themselves into a legal rate of 1 per cent a month, plus a commission or bonus of from 2 to 10 per cent. Bank rates were of course regularly quoted at 1 per cent a month, for bankers could ill afford to violate the law openly; but it is probable that even bank loans were often placed through the money brokers where a liberal commission was added. In quotations for the money market during this period two rates are invariably mentioned, the regular or "customary" rate of 12 per cent, charged by the banks on short-time loans, and a rate, varying from 1¼ to 2½ per cent for "street," "outside," "long-time," or "private" loans. Prior to 1866 bank rates of discount were frequently quoted at 1½ to 1¾ per cent, but in the autumn of 1865 the Portland banks, upon the initiative of the newly established Bank of British Columbia, agreed that, after January 1, 1866, the rates on overdrawn accounts and discounted bills would be 12 per cent per annum and that interest of 3 per cent per annum would be allowed on all credit balances of $1,000 or upward. This agreement also stipulated that the regular rate on San Francisco exchange should be one-half of 1 per cent premium instead of three-quarters of 1 per cent which had hitherto been the prevailing rate.‡

Down to 1873 the Portland banks made loans on real estate scarcely at all but confined their attention to commercial business almost exclusively.‖

Their operations, too, were characterized by extreme caution. Loans were seldom made except on the best security and for a period of more than 90 days. Long-time loans for industrial purposes or loans on real estate security were seldom negotiated except by money brokers,

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**General Laws of Oregon 1862,* pp. 115-116.
†*Oregon Reports,* Vol. 5, p. 432, *et seq.*
‡*Oregonian,* September 30, 1865; *Ibid,* December 30, 1865.
‖H. W. Scott, *History of Portland,* p. 403; Hugh Small, *Oregon and Her Resources,* p. 103.

where the commission was normally 5 per cent, though at times a much higher rate was charged.*

In spite of inducements offered by the borrower there was still a dearth of loanable funds in the local market and complaints were frequently heard that needed improvements in city and country were delayed for want of capital.†

Naturally some such enterprises were highly speculative in their character and capitalists and money lenders were not to be blamed for exercising proper caution.

The few banking institutions of Oregon were, during this earlier period, largely independent of eastern connections, yet the financial panic of 1873 had a measurable effect on the local money market and operated to raise interest rates considerably. In December, 1872, "outside" discounts were quoted at from 1½ to 2½ per cent, and as much as 2½ per cent was charged by street brokers on acceptable paper. There was a noticeable stringency in the money market in the early months of 1873 and during the following summer the demand for loans was intensified by two further circumstances. Considerable money was needed to move the crops and grain buyers were calling for accommodations at the banks. In July, 1873, Portland was visited by a disastrous fire which destroyed about one-fifth of the property valuation. The money for rebuilding the burnt district, except that paid by outside insurance companies, had to be borrowed on real estate security and property owners were eager to obtain loans. The best terms on which money could be secured for building purposes, however, was 17 per cent and the reluctance of property owners to mortgage at such rates checked the rebuilding and further progress of the city.‡

II.

Little progress was made in commercial banking from 1874 to 1877 and the three Portland banks already referred to—Ladd & Tilton, the First National, and the Bank of British Columbia—had practical control of the commercial business until 1878. It was only natural that capital derived from the profits of trade and handled by merchants should seek investment along commercial lines. But there was now a considerable demand for mortgage loans which the banks had hitherto failed to supply. It was estimated in 1872 that "at least $1,000,000 could be loaned on real estate at from 10 to 12 per cent."‖

About 1874 the demand for long-time loans on real estate was partly met by the introduction of foreign capital. The Oregon & Washington Trust Investment Company was organized with a capital of $250,000 to be loaned exclusively on farms and city property for a term of three to five years. This corporation was formed in Scotland and in less

*William Reid, *Progress of Portland and Oregon 1868-1878*, p. 20; H. W. Scott, *History of Portland*, p. 403; *Oregonian*, August 26, 1873; *Ibid*, November 13, 1869.
†William Reid, *Progress of Portland and Oregon 1868-1878*, p. 20.
‡*Oregonian*, August 15, 1873; *Ibid*, August 18, 1873.
‖Small, *Oregon and Her Resources*, p. 103.

than a year its entire capital had been invested in real estate loans. The following year the capital stock was doubled, and in 1878 it had fully $1,000,000 invested in mortgages within the State. The business methods of the company were characterized by extreme conservatism and no loans were made in excess of 40 per cent of the property valuation.*

The initiative of foreign capitalists was likewise responsible for the first savings bank established in Oregon. The Oregon & Washington Mortgage Savings Bank was opened for business on November 20, 1876, with a capital of $300,000 fully paid in. Though the capital was largely supplied by Scotch financiers, there were thirty-one resident shareholders in Oregon and Washington. The aim was to loan only on real estate in the Pacific Northwest and to receive deposits for investment in mortgage securities. As a matter of fact the operations of the bank were largely confined to the State of Oregon.†

Two years after the founding of the first savings bank the Bank of British North America opened a branch in Portland and during the next two years three savings banks, the Portland Savings Bank, the Metropolitan Savings Bank, and the Willamette Savings Bank began business.‡

The period from 1876-1880 might therefore be characterized as the savings-bank period, and the aim seemed to be to utilize foreign capital as well as the smaller savings of depositors to make investments in real estate mortgages.

In 1878 the three original banks of Portland had a working capital including deposits of $4,500,000. During the year 1878 the fourth bank—a branch of the Bank of British North America—began operations in Portland. Outside of the metropolis there were three other banking institutions and the combined capital of the seven non-national banks was $643,225, and their deposits were $1,489,547.‖

If to these figures we add the resources of the First National Bank in Portland—capital and surplus of $583,924 and deposits of $707,825.24—the banking capital of the State, including deposits, was in the neighborhood of three millions of dollars. No reliable estimate can be formed of the loans made by private and joint stock banks, since these figures are omitted from the comptroller's report, but the loans and discounts of the First National Bank of Portland amounted to $867,493.37. In 1878 the population of Portland was estimated at 20,000 and that of the State at 156,000.¶

The organization of three savings banks during the years 1878-1880 increased very considerably the banking resources of the State. In 1880 there were fifteen private and joint-stock banks in Oregon with an aggregate capital of $1,245,208 and deposits of $1,033,103. To these

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*Reid, *Progress of Portland and Oregon, 1868-1878*, p. 20; Scott, *History of Portland*, p. 404; *Oregonian*, November 12, 1876; *Ibid*, January 1, 1895.

†*Oregonian*, November 15, 1876; Reid, *Progress of Portland and Oregon, 1868-1878*, p. 20; Scott, *History of Portland*, p. 404.

‡Scott, *History of Portland*, p. 404.

‖*Report of Comptroller of Currency, 1879*, p. 107.

¶Reid, *Progress of Portland and Oregon, 1868-1878*, p. 2.

must be added the resources of the one national bank—capital and surplus of $607,887.57 and deposits of $707,630.02—which brings the available banking capital of the State up to $3,593,000. The population of Oregon in 1880 was 174,768.

Just before the era of railroad construction and of national bank organization following 1882 the resources of the twenty trust companies, private and joint stock banks, other than national, were represented by a capital of $951,542 and deposits of $2,915,865. Adding the resources of the one national bank we have a combined capital of $1,201,542 and deposits of $3,949,096.27. Comparing these figures with those of 1878 the most noticeable fact is the rapid increase in deposits. While the capital of all banks increased but 33.6 per cent during the years 1878-1881, the deposits were more than doubled. This rapid rate of increase was undoubtedly due to the influence of the savings banks organized during the years 1878-1880 and the rates of interest offered to attract deposits. The customary rate was 6 per cent on one-year certificates while on time deposits of from four to nine months from 4 to 5 per cent was allowed.*

The organization of new banks and the increase in banking capital did not operate to reduce interest rates very considerably. Rates for all classes of loans remained high and business men complained that the industrial development of the country was hampered by the lack of capital. Evidently the demand for loanable funds outran the supply. Bank discounts on short-time commercial paper were made at 1 per cent a month to regular customers; but excessive commissions were charged outsiders on long-time loans on real estate and industrial security, who were compelled to negotiate loans through brokers and loan agencies. In 1874 money was offered for "outside" loans at 20 per cent for one or two years and the usual rates at which "street" loans were executed were from 1½ to 2 per cent.†

In 1876 it was said that rates of interest were so high that men could not afford to invest in enterprises which promised only a remote return, such as buildings, mills, factories—to say nothing of railway and canal improvements. "It is claimed," said a writer in the *Oregonian* of November 2, 1876, "that no man can buy a farm in the State and pay the usual interest rate with a hope of reaping a substantial return for his work, but that three-fourths of the farms purchased in this way are sold on foreclosures." From this it would appear that the banks were at that time capable of rendering little industrial service to the community for the chief industry was still agriculture. Interest rates may not have been too high for the supply of capital but they were obviously too high for the prosperity of the State when lending promised larger returns than investments in permanent improvements, and that, too, in a country with vast undeveloped resources.

In January, 1877, the leading banks of San Francisco reduced rates on ordinary discounts to three-fourths of 1 per cent a month and similar

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**Oregonian,* August 12, 1876; *Ibid,* February 11, 1885, advertisement.
†*Oregonian,* January 20, 1874; *Ibid,* January 13, 1874; *Ibid,* January 30, 1874.

action was expected from the Portland banks, but no such reduction was made.*

Interest rates not only remained high but there was a noticeable scarcity of capital. It was thought by some that the usury laws of the State were responsible for the lack of accommodations to borrowers, since they operated to prevent rates from being fixed in the open market and drove business into the loan agencies where higher than market rates were charged under the guise of a bonus or a commission. An attempt was made in the autumn of 1876 to repeal the usury laws but a bill introduced for that purpose failed of passage.†

In addition to the legal rate of 1 per cent a month a commission of from 2 to 6 per cent was still charged on any except short time loans on "gilt-edge" security.‡

III.

The years 1879-1883 might be characterized as the era of railroad building in Oregon. During this period the Villard syndicate of American and European capitalists was formed to complete the construction of the Northern Pacific and to harmonize its interests with those of the Oregon roads by providing for joint management. By 1883 the Northern Pacific had been completed to Portland and the Columbia River at Kalama; and the lines of the Oregon Railway & Navigation Company had been extended eastward into the Inland Empire; the Oregon Central was completed to Eugene; and the Oregon & California was finished to the southern line of Douglas County.‖

These improvements in the means of transportation tended not only to facilitate trade and to attract immigration but resulted in the investment of outside capital in the State. It was estimated that during the year 1882 alone more than $14,000,000 were expended for railway construction in the Pacific Northwest.¶

These developments tended directly and indirectly to enhance the importance of banking.

Improved transportation facilities helped at the same time to decide the supremacy of Portland as the industrial and jobbing center of the State. Before the era of railway construction the chief city of Oregon was by no means important as a wholesale center. She, herself, depended largely on San Francisco, and the smaller towns of Oregon and Washington could send to San Francisco quite as easily as to Portland. The metropolis was at most only a way-station or forwarding point. The completion of a transcontinental road to the northwest as well as the shorter lines of the Oregon Railway & Navigation Company, the Oregon Central, Oregon & California, etc., gave Portland at the same time independent connections with the east and with interior points in the

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*_Oregonian,_ December 28, 1876.

†_Oregonian,_ September 21, 1876; _Ibid,_ October 24, 1876.

‡See _Annual Review of the Commercial, Financial, and Industrial Interests of Oregon for the Year 1877._

‖Bancroft, _History of Oregon,_ Vol. II, pp. 704-705.

¶_Oregonian,_ January 1, 1883.

State, and it began at once to develop into an independent market. The importance of Portland as a jobbing point settled definitely its position as financial center of the northwest. Country banks were now obliged to provide with facilities for making remittances to wholesalers in Portland and to collect checks, drafts given in exchange for grain, wool, cattle or fruits which were usually marketed there and paid for in Portland exchange. No bank in the interior, therefore, opened its doors without first arranging for a correspondent in the metropolis and eastern capital sought investment in the northwest through the agency of Portland banks. At this period perhaps a large share of the money that circulated in the Pacific Northwest was distributed from Portland. If the manufacturer or exporter bought raw materials from the producers of the Inland Empire or the Willamette Valley, payments were usually made through the banks of Portland. Country banks also depended largely on the metropolis to make advances of money to move the crops.

The funds thus distributed were paid out for labor and sooner or later found their way into the hands of retailers. In turn they were used by country merchants to purchase Portland exchange with which to satisfy their obligations to wholesalers. The drafts thus received by manufacturers and wholesalers were again deposited in city banks, there to await an opportunity to begin another debt-paying tour. If Portland banks advanced capital for an industrial enterprise, a mill or factory, anywhere in the State a large share of it came back to the metropolis sooner or later for the purchase of machinery and tools. This was only the natural consequence of its position as industrial and jobbing center of the Pacific Northwest. Through the natural developments of trade Portland became at the same time the clearing and credit center of the State, and henceforth the development of banking in Oregon followed pretty closely the progress of its chief banking center.

The years following 1882 marked the improvement and rapid extension of banking facilities into all parts of the State. It was especially an era of national bank organization. At the close of the year 1881 there was only one national bank in Oregon, but by 1886 the number had increased to 18 with a combined capital of $1,320,000 and deposits of $3,692,000. In the city of Portland the Portland National, the Ainsworth National, Commercial National and the Merchants National were added to the list; and these, together with the First National, Ladd & Tilton, Bank of British Columbia and the London and San Francisco Bank, which had established a branch in Portland in 1882, did a large share of the banking business of Oregon. Some of these were represented by branches, offices or agents in other parts of the State.*

But this period was characterized by the rapid extension of banking facilities into the smaller communities as well. The oldest banking institutions in Lane County were established by Hovey, Humphrey & Co. in 1882, and Hendricks & Eakin in 1884, while between the years 1881

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*Scott, *History of Portland*, p. 404.

and 1886, national banks were organized in Albany, Astoria, Baker City, East Portland, Eugene, Island City, McMinnville, Pendleton, Salem (2), The Dalles (2), and Union. An estimate furnished by the comptroller of the currency places the banking resources of Oregon in 1889 at the following figures: Aggregate capital of all banks $12,481,634 or a per capita of $43.18. Of this total the national banks represent a per capita of $40.87; State banks, $1.83, and private banks, $0.48. The figures for State and private banks are manifestly too low, and the discrepancy results from the failure of non-national banks to make report of their condition, not being required to do so by law. That these statistics are untrustworthy is shown by a comparison with the estimates furnished by the comptroller for the following year. The capital (including deposits) of all banks was placed at $19,263,874 and the population at 312,490. The ratio of capital to population was, therefore, for all banks $61.64; for national banks, $44.44; State banks, $3.41, and private banks, $13.79. The loans and discounts of the 37 national banks were fixed at $11,059,753.88, but similar estimates are lacking for State and private banks.

In view of the fact that the figures for State and private banks are unreliable too much significance must not be attached to a comparison with other states. The capital of all banks in New York State, however, represented at the same date a per capita of $272.96. For national banks the per capita was $82.65; for State banks, $38.99; for loan and trust companies, $42.77; for savings banks, $107.78; for private banks, $0.77. This comparison will serve to indicate roughly the larger relative importance of national banks in Oregon, for while the per capita of capital for all banks was less than one-fourth of that in New York State, the ratio of capital of national banks to population was one-half. The high relative importance of national banks to Oregon is further borne out by a comparison with the neighboring State of California, where in 1890 the capital of all banks represented a per capita of $206.32 while that of national banks was only $23.16.

The total capital employed by Portland banks in 1890 was estimated at $9,760,000, of which $4,310,000 was in local banks and $5,450,000 in branches of foreign banks, like the Oregon & Washington Savings Bank, Bank of British Columbia, and the London and San Francisco Bank. If to this capital be added a surplus of $3,634,345 the banking capital of the metropolis amounted to $13,394,340, or $537 per capita.*

In 1889 the Portland banks seeing that the metropolis had become the financial center of Oregon and that checks and drafts from all parts of the State were collected through the agency of city banks, organized the Portland Clearing House Association for the easier settlement of balances against each other. The original membership of the clearing house association was composed of the Ainsworth National, the Commercial National, the First National, Ladd & Tilton, London and San Francisco Bank, Merchants National, Northwest Loan & Trust Company,

Oregonian, January 1, 1891.

Oregon National and the Portland Savings Bank. During the first calendar year of 1890 the clearings amounted to $93,624,070.03. Balances are regularly paid in cash or clearing house certificates for which cash has been deposited. An exception was made, as we shall see, during the panic of 1907 when the clearing house certificate represented not specie but acceptable securities deposited with clearing house officials.*

The method employed by Portland banks for settling balances at the clearing house should not be overlooked when comparisons are made with the volume of transactions in other clearing house centers. Balances are often settled by checks of the clearing house manager or debtor banks or by drafts on larger money centers. Such drafts are usually returned by creditor banks on the following day and are cleared in precisely the same way as new items. This practice tends to swell abnormally apparent volume of transactions. The following figures represent the transactions of the Portland clearing house for the past six years:

Year.	*Clearings.*	*Year.*	*Clearings.*
1902	$154,320,103.09	1905	$228,402,712.69
1903	175,596,622.53	1906	281,170,796.26
1904	189,051,469.92	1907	353,851,629.80

The years following 1882 witnessed but slight reduction in interest rates despite the increase in banking facilities. In 1881 the prevailing rates for bank loans were from 10 to 12 per cent and the security had to be of the first order.†

In 1880 the laws had been so amended as to fix the legal rate of interest at 8 per cent and to allow a maximum of 10 per cent by special agreement. This statute also legalized any agreement between debtor and creditor by which either party is bound to pay the taxes on debts provided the rate of interest does not exceed 8 per cent per annum.‡ This legislation, however, failed to reduce rates to the borrower in any material degree and may in some cases have operated to raise them by introducing an element of risk for those who loaned at excessive rates. At any rate the years 1883-1885 were characterized by a scarcity of loanable funds and high interest rates. The effect of the stringency was felt early in the year 1883 and was explained by the fact that wholesalers, manufacturers, and other business men had realized an unexpected expansion in the volume of business and were obliged to call upon the banks for increased accommodations. This demand was at first met by the organization of new banks and the growth of deposits due to immigration.||

During the year 1884, however, the stringency in the money market was aggravated by further causes. The depression which reached all parts of the country had a serious effect on business generally and on banking in particular. The failure of immigration to the Willamette

**Oregonian*, January 1, 1895; *Ibid*, January 1, 1891.
†*Oregonian*, January 1, 1881.
‡*Statutes of Oregon 1880*, p. 17.
||*Oregonian*, January 1, 1884.

Valley was accompanied by a decline in the number who came to the Inland Empire and these developments tended to check the growth of deposits.

Railway construction which had been carried on so actively during the years 1882-1883 ceased altogether except on the Oregon and California lines in Southern Oregon and on the Baker City branch in the eastern part of the State. There was a feeling of uneasiness in the financial world, money lenders called in their loans and refused to make further advances. Foreign capitalists in particular were adverse to lending on real estate security, alleging that the mortgage tax law then in operation in Oregon was an obstacle to new loans. This measure, it was charged, had been passed by representatives of the farming class in the interior and had proved to be very burdensome to the capitalist and money-lender.*

It is highly probable, however, that the hardships of the money-lender were only temporary for interest rates were soon adjusted so as to shift the burden of the tax to the borrower.

The farming class were perhaps most seriously affected by the stringency in the money market. Farm loans were the first to be called in and the restriction of credit had a damaging effect on the market for farm products. Grain buyers in particular, unable to obtain needed accommodations at the banks, were compelled to do a close business. They purchased only for immediate delivery and sold at once and as a consequence there was little activity in the grain market. The money to work on was obtained by quick sales and the operations of speculators were limited by the amount of their own capital. Thus the farming class were not only denied additional accommodations by money lenders but were forced to meet interest payments on long-standing mortgages while low prices for farm products prevailed. The scarcity of loanable funds and high rates of interest imposed a hardship indirectly on all classes and operated to check the industrial development of the community. It retarded the growth of manufactures which had been established during the early eighties and kept the State wholly dependent on the east for many articles of common consumption which might have been produced to advantage at home.

Toward the end of 1885 the stringency in the money market was partly relieved. "Interior debtors began living more within their means and had money to pay their long-standing debts."†

The feeling of uneasiness among business men was partly allayed and capitalists, once in possession of money, did not hoard it but were willing to make advances on good security exercising of course proper caution in placing their loans. Increased production and renewed immigration brought more money into the State. Foreign capitalists of course continued to restrict their loans but did not press their customers. The situation was so much relieved that in 1889 money might be had on mortgage loans at from 8 to 10 per cent and to farmers who had paid

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**Oregonian*, January 1, 1884.
†Oregonian, January 1, 1886.

during the lean years of 1883-1885 as much as 1 to 2 per cent a month these rates seemed moderate.*

The decade closed, however, with a shortage in the local money market. The stringency was attributed to the fact that much of the loanable funds had been drawn from England and Scotland where the supply was formerly in excess of the demand. Interest rates had been low and capital had sought investment in the far west where more liberal returns were promised. About the end of the year 1889, however, the demand for loans in England was considerably strengthened on account of a general revival in trade, and interest rates rose about 2 per cent. As a consequence banks and money brokers that had relied on foreign capital found the supply had failed them.†

The stringency which made itself felt late in the year 1889 was aggravated by further developments during the year 1890. There was first of all considerable speculation in real estate and undue inflation of land values particularly in and around cities. It was an era of systematic town-booming. Speculation in real estate had operated to create an abnormal and artificial demand for mortgage loans. Another factor which operated indirectly to increase the financial difficulties was the inability of the railroads to handle the unusually large grain crop of the northwest. Grain buyers had laid out vast sums of money in the purchase of cereals, and were kept from moving and marketing the crop.‡ Toward the close of the year 1890 the temporary panic in the east affected the local money market and a certain amount of uneasiness caused a run on some of the local banks. These were met without difficulty, however, and no failures resulted.‖

IV.

The years 1882-1890 we have characterized as the period of national bank organization, but the next ten years witnessed a marked decline in the number of national banks. In 1891 the number of banks organized under national laws was forty and during the year 1892 one other bank was added to the list. By 1900, however, the number of national banks had been reduced to twenty-seven. The decline was due to the failure of some six banks following the panic of 1893, the voluntary dissolution of a few, and the amalgamation or absorption of others. The capital of national banks had also been reduced from $4,275,000 to $2,370,000 and the surplus from $802,000 to $495,000; the loans of national banks had also fallen off from $12,006,000 to $7,573,000. On the other hand the deposits of national banks had increased from $9,673,000 to $11,782,000, and the outstanding circulation was $958,000 as compared with $690,000 in 1891.

The comptroller's estimate previously referred to places the combined capital of all banking institutions in the State at $17,426,323 in the

Wealth and Resources of Oregon and Washington, issued by Union Pacific Railroad, p. 77.
†*Oregonian*, January 1, 1890.
‡*Oregonian*, January 1, 1891.
‖*Ibid.*

year 1895. The estimated population of Oregon at that time was 388,000. The ratio of banking capital to population was, therefore, $44.91. Of this per capita $34.92 was furnished by national banks; $2.80 by State banks; $6.29 by savings banks, and $0.90 by private banks. New York State at the same time had a banking capital of $298.74 per capita, and for California the corresponding figure was $207.87.

By 1900 the population of the State had increased to 460,000 and the banking capital was estimated at $19,890,599, or $43.18 per capita, $33.89 of which was furnished by the national banks, $8.90 by State banks and $0.39 by private banks. The ratio of banking capital to population in New York State at the same time was $397.58. If we accept the comptroller's estimate, then, it would appear that the banking capital of the State had remained practically stationary while the population had increased about 47 per cent. The ratio of capital to population had therefore fallen off from $61.64 to $43.18.

The decline in the importance of banking during the decade 1890 to 1900 and the dissolution of several banking institutions can be accounted for very largely by the reverses which followed the panic of 1893—the severest in the history of Oregon banks. During the preceding years of business activity banks had freely extended their accommodations to merchants and manufacturers. Opportunities for the profitable employment of capital in the wholesale and grain trade in the metropolis had led many of the city banks to offer liberal inducements to country banks to increase their balances. At the same time Portland banks were extending their loan and discount business they were becoming heavily indebted to country correspondents. During the era of town-booming and land speculation municipalities, financial institutions, corporations, and individuals had become heavily in debt to eastern capitalists. Large sums were needed to develop the resources and to promote public improvements and the State had drawn heavily on eastern capital. When a new enterprise was to be established or new resources utilized people had begun to contrive methods of interesting outside capitalists. The farming class and owners of real estate in particular were heavily indebted to eastern and foreign holders of mortgages on both farms and city property.*

Early in the summer of 1893 business was noticeably depressed, and the uneasiness caused by reports of eastern failures and the difficulties encountered by the government in maintaining the gold reserve led to the withdrawal of deposits from the Portland banks. Business men were confident, however, that the banks would be able to stand the strain until the autumn sale of crops and the seasonal revival of trade would relieve the situation. On the 27th of July, however, the Oregon National closed its doors and was soon followed by the Northwest Loan & Trust Company, which was under practically the same management. Both these banks had been conducted by George B. Markle and associates for a number of years before the panic. Mr. Markle

*_Oregonian,_ January 1, 1904; _Ibid,_ January 1, 1907.

came to Portland with considerable capital and soon showed an active interest in the development of Oregon and the northwest. He was, however, over-sanguine and daring even to the point of recklessness. A few successful investments soon won him a reputation for sound business judgment but many of his ventures presently took a speculative turn. During the financial stringency of the early months of 1893 Mr. Markle found himself heavily involved and to save his credit was forced to draw on the resources of the Oregon National. The bank was therefore in no condition to meet the heavy demands of its depositors and was obliged to close its doors.*

On the day following the suspension of the Oregon National, the Union Banking Company, a new institution with few depositors, also closed its doors; and a quiet run was begun on other banks in the city. The excitement soon subsided, however, and business men continued to make deposits as usual. Before long, however, the Commercial National and the Portland Savings Bank, allied institutions in which the business community had the greatest confidence, failed to open for business. A series of bank failures such as this seemed to threaten a general suspension of payment and in the excitement which followed even business men began to withdraw their deposits. The Ainsworth National was compelled to close its doors temporarily, but the other banks were able to weather the storm. The news of Portland failures soon spread to interior towns and numerous banking institutions all over the State were forced to suspend for a time or even permanently. Among the national banks that suspended payment were the First National Bank of Baker City, First National and The Dalles National of The Dalles, First National of Pendleton, First National of Arlington, and the Linn County National of Albany. The United States Banking Company with branches located at Gervais, Sheridan, and Junction City became insolvent but its failure had little effect on other financial institutions although it was indebted to Portland banks for moderate sums.†

The majority of the suspended banks subsequently resumed business, however. Following the suspension of the First National Bank at The Dalles the comptroller of the currency sent thither Mr. Lionel Stagge, the newly appointed bank examiner for Oregon. Through the intervention of Mr. Stagge funds were secured from creditors and the depositors were induced to enter into an agreement by which the bank was enabled to reopen its doors in three weeks. Mr. Stagge subsequently went to Portland and was instrumental in bringing about an arrangement by which the Ainsworth National and the Oregon National resumed business.‡

The Oregon National was among the first to reopen but on December 8 the county grand jury returned an indictment against Geo. B. Markle, president, D. F. Sherman, cashier, and Penumbra Kelly, sheriff of Multnomah County, for their failure to pay over to the county treasurer

**Pacific Banker and Investor*, August, 1893, p. 43; *Oregonian*, January 1, 1896.
†*Pacific Banker and Investor*, March, 1893, p. 42.
‡*Pacific Banker and Investor*, September, 1893, p. 51.

about $148,000 of county funds and this caused the bank to close its doors permanently. Mr. Kelly as sheriff had collected the taxes and deposited the proceeds with the Oregon National and the Northwest Loan & Trust Company, which were separate corporations but under the same controlling interest, George B. Markle being president of both. It happened that Mr. Markle was also one of Penumbra Kelly's bondsmen. When the bank suspended in July, 1893, Sheriff Kelly had nearly $149,000 on deposit with the Oregon National, which sum had been increased to $160,000 by an excess of deposits over checks following the reopening of the bank. The sheriff had also deposited with the Northwest Loan & Trust Company something like $169,000. Mr. Kelly feared to withdraw the public funds lest he should cause the banks to close their doors again. Public opinion, however, demanded the immediate deposit of the funds with the county treasurer under threat of indictment. During the week prior to the action of the grand jury—which was evidently anticipated—county funds were withdrawn and the sheriff's balance with the Oregon National was reduced to $125,000. The depletion of the bank's cash resources together with the indictment of its officials caused its permanent suspension.*

The panic of 1893 was also responsible for the failure of one of Portland's most substantial savings banks. This was the Portland Savings Bank which began business as early as 1880. It was the intention of the organizers at the outset to conduct a strictly savings bank business and aimed principally to accommodate those of small means. But the exigencies of the case forced the bank to do a commercial business and it came in time to handle some heavy deposit accounts. In 1886 the business of the bank was divided into two departments with separate officials but the stockholders remained the same. The officers of the bank were conservative business men and its affairs were never recklessly managed, but it was nevertheless compelled to close its doors during the panic. The bank of course subsequently reopened but it closed again in November, 1894, and its affairs were wound up by a receiver. Its failure was due largely to an attempt to do a commercial business with savings deposits. While the bank paid rather liberal rates of interest on savings accounts, it nevertheless continued to make commercial loans.†

The history of the panic of 1893 serves to emphasize the peculiar relation of the Oregon banks to the eastern money market at this time. Apparently not a single failure in Portland could be traced directly to similar failures in the east. Undoubtedly the suspension of eastern banks was largely responsible for the feeling of general uneasiness which caused the initial runs on local banks. As we have already indicated many municipalities and financial institutions were, at this time, heavily indebted to eastern capitalists and the Oregon banks carried only moderate balances with eastern correspondents. Failures in the money centers of the east, therefore, affected the Portland banks favor-

Pacific Banker and Investor, January, 1894, pp. 40-41.
†*Oregonian*, January 1, 1896; *Ibid*, January 1, 1886.

ably if at all. It may be said with equal confidence that few, if any, of the country banks suspended on account of the failure of Portland banks to render aid. Although banks in the interior made heavy demands on city correspondents these demands were promptly met, and some of the stronger institutions even made considerable advances to save their country correspondents from ruin. It is stated that one of the older banks of Portland distributed $2,000,000 among corresponding banks in interior towns. Some of these advances were in the nature of loans and the solvency of country banks was in some measure directly dependent on the soundness of city correspondents.*

V.

The period of industrial activity following the year 1900 resulted in the organization of new banks of every description and the rapid extension of banking facilities into the newer communities of the State. The number of national banks in Oregon increased from 27 in 1900 to 75 in 1910, while the capital was increased from $2,395,000 in 1900 to $7,286,000 in 1910. During the same period the surplus increased from $502,000 to $2,987,606.99, and deposits from $13,567,000 to $50,-170,024.62. Loans and discounts were $24,862,000 in 1900 as compared with $39,159,000 in 1910.

Under the new banking laws of 1907 State and private as well as national banks are required to furnish a report of their condition at stated intervals. On June 30, 1910, according to the report of the State Bank Examiner, there were in Oregon 151 State and private banks and 75 national banks with a combined capital of $14,851,094.50. To this should be added a surplus of $4,660,092.50 and undivided profits of $2,218,007.51. The total banking capital of the State is, therefore, in the neighborhood of $21,729,000. The aggregate deposits of all banks were $101,173,000 and loans and discounts were reported at $70,854,000. The estimated population of Oregon at the present time is 600,000 and the ratio of banking capital to population is therefore $36.21. The per capita of bank deposits is $168.62 and of loans and discounts $118.09. The national bank circulation is $3,956,995, or about 26 per cent of the capital stock.

The financial panic of 1907 resulted in the general suspension of payments by Oregon banks but caused the failure of only two institutions with comparatively small capital, which had resorted to rather questionable methods. The banks in Portland and even in some of the smaller towns resorted to the use of clearing house certificates, and these money substitutes formed a considerable portion of the circulating medium for two or three months. Bank holidays were also declared by the Governor from October 29 to December 16, but on the latter date the Portland banks began paying depositors in full, and were, therefore, among the first in any large city of the United States to resume specie payment.

**Oregonian,* January 1, 1896; *Ibid,* January 1, 1902; *Oregonian Handbook, 1894,* p. 138.

The effects of the panic were more severely felt because it came at a time when large sums were needed by Portland banks and correspondents in the interior to move the crops, which proved to be the largest in the history of the State. During the winter and spring of 1907 the Oregon banks had increased their balances in Chicago and New York and allowed large sums to accumulate in the hands of eastern correspondents. The relation between the Oregon banks and the eastern money market was therefore essentially different from what it was in 1893. The banks of the State had just begun to draw upon these resources to meet the regularly recurring demand for harvest money when the disturbance in New York precipitated the panic. When the banks in the reserve centers of the east suspended payment the banks of the west were left to weather the storm on their own resources. During the continuance of legal holidays, which were declared by the Governor to enable banks to secure remittances from the east and to replenish their cash reserves, the banks remained open but refused to meet the demands of depositors or paid only moderate sums at their own discretion. Banks which did not refuse the demands of depositors altogether regularly placed a limit on the amount they could draw. When the banks resumed payment on December 16 there was no marked departure from the ordinary run of business. Those who wanted gold were able to obtain it readily but there was no considerable withdrawal of funds and deposits were regular and heavy.*

In order to economize their cash resources clearing house loan certificates were issued to the Portland banks and were used for settling balances against each other. This was the first time the Portland banks had resorted to the use of credit devices, for up to this time clearing house obligations had invariably been paid in coin. In all about $1,000,000 of these certificates were issued for this purpose, but $690,000 in all had been retired by December 26, 1907. Of the remainder still outstanding $225,000 had been issued to the Merchants National Bank before its suspension, and could be retired only when the bank resumed operations or had its affairs wound up by a receiver. Only about $85,000 worth of loan certificates were in use by the other banks on January 1, 1908.†

In addition to the clearing house loan certificates described above the Portland banks issued some $1,150,000 of clearing house certificates in smaller denominations and designed for general circulation. This asset currency was based on receipts representing grain or other staple commodities actually stored in warehouses or in process of being shipped. These certificates represented two-thirds of the value of the security. These credit devices were not payable until February 1, 1908, but the banks began redeeming and retiring them early in December and by December 26, 1907, only $590,400 of these credit instruments were still outstanding; and the remainder were called in and cancelled as fast as they were presented to members of the clearing house association.‡

**Oregonian,* January 1, 1908.
†*Ibid*, p. 6.
‡*Oregonian,* January 1, 1908.

The use of certificates enabled the banks to meet the demands of customers more readily and fully and at the same time to supply a circulating medium when coin was being hoarded and the use of checks was necessarily restricted. At the worst stages of the panic the Portland banks paid a premium of 3¾ per cent for gold. It was the usual practice with the banks to furnish employers with the means of paying their regular wages bill, generally supplying one-half cash and one-half certificates. In this way many industrial enterprises were kept from shutting down, while salaried persons and wage-earners suffered little inconvenience. Business houses quite generally advertised, by placards in the windows, that they were willing to accept certificates in payment for goods. These credit devices were then deposited with the banks by merchants and business men, and were paid out again if the demand was sufficient to warrant.

In all the larger cities and towns outside of Portland the banks co-operated with each other in managing the panic, taking steps to issue asset currency, to encourage the use of money substitutes, and to conserve their cash resources. The four banks of Eugene formed a clearing house association expressly for the purpose of issuing clearing house certificates to circulate as money. As the basis of this issue securities to the amount of $15,000 were deposited with the county clerk as common trustee of the banks. In all ten thousand dollars' worth of certificates were issued in convenient denominations and were readily accepted by the community as a substitute for cash.

Immediately after the suspension of the banks in the east representatives from eleven financial institutions in the Rogue River Valley met at Grants Pass and discussed the advisability of forming a local association for the purpose of issuing some form of asset currency secured by collateral. Lack of uniformity in the collaterals held by the several banks kept them from reaching an agreement and no currency was issued. It was the policy of the bankers, however, to encourage the people to do as much business as possible with check instead of money. The banks of Southern Oregon agreed to accept checks and drafts on other institutions only by issuing their own certificates of deposit, payable in current funds or in exchange at their option thus avoiding the assumption of any more "cash responsibility." At Roseburg the banks did not issue clearing house certificates but placed a limit of $25 a week on cash payments to a single depositor unless the customer was hard pressed for money where as much as $1,000 was frequently paid. The Salem banks contemplated a joint issue of asset currency to move the produce but expected to retire it with the proceeds of the sale as soon as the crops were marketed. Bank officials had determined in favor of such action in case the need was sufficient to warrant but later decided that their cash resources were adequate. The few clearing house certificates that came into circulation were promptly deposited and remitted to Portland and San Francisco for the bank's credit. The banks of Oregon City had little difficulty in meeting the cash demands upon them when it seemed advisable. The local banks floated a con-

siderable amount of clearing house certificates in meeting the pay roll of factory industries. These certificates were, however, soon returned for deposit and as promptly as possible were sent to Portland or San Francisco correspondents for credit. The Astoria banks agreed to settle with each other by means of draft so as to economize their cash reserves. Though there was no established rule with regard to the amount of cash paid out as much as $100 was frequently paid though larger drafts were refused under protection of the legal holidays.

The Hood River banks agreed to cash checks only on themselves and to limit the allowance of any depositor to $50 a week unless unusual circumstances called for larger amounts. Certificates of deposit, cashiers' checks and drafts on correspondents were made payable in clearing house funds instead of cash. Small amounts of clearing house certificates were borrowed from correspondents on satisfactory security but these were soon retired from circulation. Few attempts were made to withdraw deposits of considerable size and when the customers were acquainted with the arrangement, confidence in the banks prevailed. The banks of Pendleton went through the panic without resort to the use of clearing house certificates. As a rule depositors received such amounts as they needed. Customers were of course given to understand that if there was an imperative need for money the bank was willing to supply it, but if their intention was to withdraw and hoard it their demands were flatly refused. The banks of La Grande and Union County formed a county bankers' association principally for the purpose of unified action in matters of cash payments, which were restricted to $50 for a single check and $100 a week. In Baker City customers of the banks were limited to $200 a week in cash but were paid in exchange to the full amount of their deposits. Realizing that depositors with $500 or less to their credit could soon withdraw their money in spite of restrictions, the banks removed the limitation for this class of customers and paid them in full on demand.*

With the exception of a constitutional provision against the issue of circulating notes, a statutory prohibition against the conversion of funds to private use by banks or bank officials, and laws intended to facilitate the assessment of bank stock, State and private banks of Oregon were practically free from legal regulation until the recent bank law of February 25, 1907. All except national banks had transacted a banking business subject only to the general incorporation laws, and entirely free from any special supervision by State boards or officials. There were no special laws which applied to savings banks, and there were no legal provisions for winding up the affairs of defunct banks except as insolvent corporations. During the session of 1907, however, a comprehensive banking act was passed which put all private banks, trust companies, and savings banks under strict administrative supervision. The aim was to provide better protection for the creditors of the bank by securing greater publicity of its affairs and by requiring

*The facts here stated were obtained through correspondence with national banks in all parts of the State.

minimum capital, minimum cash reserves, the accumulation of surpluses and a stricter regulation of loans.

The Governor, Secretary of State and Treasurer are constituted a board of bank commissioners with power to appoint a State Bank Examiner whose term of office shall be four years. The incumbent of such position must have had at least three years' practical experience in the banking business or must have served for a like period in the banking department of some State, and is required to give a bond in the sum of $50,000 for the faithful and impartial discharge of his duties.*

The bank examiner has general supervision over all firms and corporations conducting a banking business which is defined by the act as "having a place of business within this State where credits are opened by the deposit or collection of money or currency or negotiable paper subject to be paid or remitted upon draft, receipt, check or order."†

The act prescribes a minimum capital for all banking institutions varying in amount with the population of the town or city where the bank is located. In towns of one thousand inhabitants or less $10,000 is sufficient; if the population is between one thousand and two thousand, the capital must be at least $25,000; in cities having a population of over two thousand and not more than five thousand a capital of $30,000 is required; in cities having a population of five thousand or upward, $50,000.‡

At least fifty per cent of the prescribed capital must be paid in before the bank is authorized to begin business and the remainder must be paid in within six months thereafter. It is further stipulated that such bank capital must be held in the shape of money, commercial paper, bank furniture and fixtures, and the *necessary* bank building.‖

Banks organized under the laws of the State are forbidden to hold any real estate except that which is necessary to transact its business, the cost of which shall not exceed fifty per cent of its paid in capital, or such real estate as shall be purchased or conveyed to the bank in satisfaction of debts, or that which is purchased at sale on judgments or foreclosures under securities held by the bank. Any real property, excepting that which is occupied as an office together with the premises in the same building held for rent as a source of income, must be sold within a period of five years after the title is acquired.¶

Any bank or banker is not authorized to declare a dividend until one-tenth of the net profits of the business for the term covered by such dividend shall have been added to the surplus or such surplus shall amount to twenty per cent of its paid capital.£

The aggregate loan to any single person, firm or corporation must not exceed twenty-five per cent of the bank's capital and surplus. This provision does not apply, however, to the discount of *bona fide* bills

*Sections 1 and 4.
†Section 7.
‡Section 8.
‖Sections 8 and 10.
¶Section 15.
£Section 17.

of exchange or to loans made on real estate, personal property, warehouse receipts, etc., provided the amount of such loan does not exceed seventy-five per cent of the actual value of commercial or business paper, warehouse receipt or personal property or fifty per cent of the actual value of the real estate.*

The law also prescribes a minimum cash reserve depending on the size of the city in which the business is conducted, the amount and the nature of deposit liabilities. If the population of the city is less than 50,000 the bank must have on hand in actual cash, or balances with solvent banks approved by the Bank Examiner, at least fifteen per cent of its demand liabilities and ten per cent of its time deposits. If the city has over 50,000 inhabitants the reserves must be twenty-five and ten per cent respectively. At least one-third of the reserves required by the act must be in actual cash on hand.†

It will be noticed at a glance that the provisions of this act with regard to minimum capital varying with population, prohibitions against the holding of real estate except for certain purposes, the accumulation of surpluses, limitation of loans to a single person or firm, and the requirement for a minimum reserve in cash on hand or deposits with approved reserve agents, are very much similar to the national bank act. The tendency to make the requirements for State banks conform to those for similar institutions organized under federal laws is further evinced by the fact that State and private banks are required to make reports of their condition on precisely the same dates as those designated by the comptroller of the currency for national banks.‡

The extension and improvement of banking facilities since 1890, together with an increase of banking capital, principally through the growth of deposits, has operated to reduce interest rates to some extent. The prevailing rate for money in Portland is now 7 per cent. Now and then exceptionally good loans are made at 6 per cent but probably not more than enough to offset those for which 8 per cent is paid. This is of course the rate on strictly commercial lines. The rate for industrial and mortgage loans varies according to circumstances and depends much on the adequacy of the security, the attendant risks of investment, etc.

Outside of Portland the rate on commercial loans may be said to have fallen approximately 2 per cent since 1890. According to the opinion of a number of bankers in various parts of the State the ruling rate in 1890 was 10 per cent, and in some communities this rate persisted throughout the next 10 years. The average rate on commercial loans is now said to be in the neighborhood of 8 per cent, though in some sections of Eastern Oregon and in the smaller communities of the Willamette Valley 10 per cent is frequently charged. During the panic of 1893 the bank rate of discount was not materially changed although there was an abnormal scarcity of loanable funds and the

*Section 20.
†Section 23.
‡Section 24. An excellent summary of the law can be found in the *Oregonian* of January 1, 1908.

demand for capital was far in excess of the supply. In the opinion of several bankers the panic merely operated to cut down loans, not to raise interest rates. In some communities, however, if money was to be had at all and the lender had no conscientious scruples with regard to usury laws, almost any sum might be paid in the way of a bonus to secure the loan. During the prosperous years of 1902-1907 when bank deposits were increasing at such a rapid pace considerable money was loaned by banks, capitalists and money brokers at rates as low as 6 per cent. From 10 to 20 per cent of the loans made by commercial banks of the State, other than national, are secured by mortgages. Rates for real estate loans vary all the way from 6 to 8 per cent, but 7 per cent is probably more common.

Before concluding this sketch it is necessary to describe briefly the arrangement which Oregon banks make for drawing domestic and foreign exchanges. All of the Portland banks arrange to draw on New York, Chicago, St. Louis, St. Paul, etc., directly. The customary rate for New York exchange is ten cents per hundred dollars and this rarely changes during the year. This charge is considered a sort of average rate sufficient to cover the cost of shipping coin as often as occasion arises. The banks expect at times to make a profit on particular transactions but in the long run these profits about cover the cost of shipping specie and the incidental expenses of handling the business. A few Portland banks maintain correspondents in London, Paris and Berlin and draw foreign exchange direct but the majority of them prefer to mass their funds in New York and handle European business through their eastern correspondents. Some of the larger banks also have correspondents in Hong Kong and Honolulu through which they arrange for remittances to insular and Oriental cities. The commoner practice, however, is to meet the demands for payments growing out of the Pacific trade by drawing drafts through San Francisco correspondents.

Outside of Portland the practice varies. Even the smaller banks arrange to draw New York drafts directly. In some instances, however, the country banks prefer to manage eastern exchanges through Portland or nearby correspondents. The prevailing rate for New York drafts is ten cents on the hundred but a rate as high as 25 cents is not uncommon. Within these limits the rate varies with the locality but remains fairly constant throughout the year. Oregon banks quite generally handle the bulk of eastern collections through New York correspondents and in the country districts purchases of eastern exchanges usually exceed their sales. Balances tend to accumulate in eastern money centers and it is often necessary to transfer funds by draft to western correspondents. In some instances, however, country banks prefer to send eastern collections to Portland or other Oregon correspondents and a working balance in New York is maintained by remitting drafts on local banks. Thus the responsibility of equalizing

supply and demand by shipments of specie is thrown on Portland or other western money centers. Few, if any, banks outside of Portland maintain correspondents in European cities or the Orient. Remittances to foreign countries are light and special arrangements for foreign exchange are made with Portland banks or more commonly with New York houses with branches in London, Paris, Berlin, Hong Kong, and other financial centers of the world. The firm of Knauth, Nachod & Kuhue commonly serves in this capacity.